Contents

Introduction

The growing importance of the Chinese economy is no secret. This huge country of over 1.3 billion people (one fifth of the world's population) has an economy that is now the fourth largest in the world, and has recorded an average growth rate of around 10% for the last two decades, making China a leading economic power on the world stage.

The importance of China has had an impact across industries, and the market research industry is no different. Market assessment research briefs which 10 or even 5 years ago might have ignored Asia completely, or perhaps asked for a passing glance at Japan, are now routinely including China as a country where opportunities must be assessed. Medium-sized companies are beginning to establish a presence in China, whilst the multinationals, many of whom still have a limited sales presence rather than a meaningful penetration in the country, are asking how their rep offices and loose distribution networks can be turned into a more entrenched presence.

The message for market research companies is therefore clear - there is now a serious and extensive requirement for information on Chinese business-to-business markets, and this requirement is certain to grow.

This white paper seeks to provide the reader with a picture of how business-to-business research is conducted in China, and the issues that should be borne in mind when commissioning projects in the country. We also seek to dispel some of the half-truths and urban myths that have built up around the Chinese and Asian research industries.

Note: *For the purposes of this paper, we will define business-to-business research as market research in which the views of businesspeople are sought, in order to facilitate a business decision. We include not only 'businesspeople' in the traditional sense, but also anyone else who contributes to a study in the context of their employment. We therefore include, for example, projects in which the views of Government officials are sought (of which there are many), and medical or pharmaceutical projects in which organizations seek the views of physicians or surgeons.*

Who Is Conducting Market Research In China?

The value of 'pure' business-to-business research in China is estimated at around $US50 million, a figure which is more than doubled when projects exploring the views of doctors, Government officials and other non-consumer research are included. This figure of $US50 million is growing at around 25% per annum, meaning that it will double within 4 years. As a point of comparison, the Chinese market for consumer research is estimated to be growing at 17%-18% per annum. The rapid growth in business-to-business research reflects the facts that Chinese companies are increasingly open to the idea of obtaining the views of businesspeople, and Western companies more and more hungry for Chinese business opinion.

In such a young and evolving industry, it is perhaps not surprising that the providers in the market are extremely different in their origins and business models:

Medium-sized and large Chinese market research agencies

Medium- and large-sized Chinese agencies (those with a turnover of over $US1.5 million, most of whom are members of ESOMAR) have many years' experience of conducting market research in China. Most of these companies' clients are Chinese businesses, or foreign businesses with an established presence in China. The individuals purchasing the research are almost exclusively Chinese. When it comes to Western clients based outside China, Chinese research agencies' activities are largely limited to interviews and desk research – they are conducting almost no 'added value' services such as analysis, statistics, and presentation development. Hence, most foreign clients outside China are foreign market research agencies.

These Chinese research agencies also conduct a small amount of international work, mainly by subcontracting to foreign agencies. However, the price of conducting research in the West is prohibitive to most Chinese clients; therefore this type of project takes place very infrequently.

It is worth noting that these medium- to large-sized agencies are relatively few in number – in fact there are no more than 20, and this number may well decrease as industry consolidation continues to occur.

Small Chinese research agencies

Smaller Chinese research agencies, that is those that turn over less than US$1.5 million, are almost exclusively fieldwork-only agencies, carrying out data collection for the larger agencies in China. These companies number around 1,200 and are an invaluable base for the industry as a whole, in that they are geographically dispersed and can gain information from the remotest areas of the country.

At present, most requests for business-to-business research are focused on China's first- and second-tier cities, meaning that most business-to-business work is conducted by the big city agencies. Concerns by business-to-business agencies about quality, coupled with businesspeople's increasing willingness to provide information over the telephone, mean that in-depth telephone interviews (rather than local agencies) are increasingly used to gain information from businesspeople in relatively remote areas.

Foreign research agencies

Foreign research agencies have operated in China for almost two decades, following the arrival of AC Nielsen in the 1980s. In fact, around half of all full service agencies are subsidiaries and joint ventures of foreign companies. This can be a real advantage to Western clients, who want not only Western-style information delivery, but also client liaison capability within the same time zone as them. Hence projects conducted jointly between the 'Chinese' and 'home' offices are common. Foreign agencies conduct a great deal of work for foreign businesses outside of China, and also compete with the higher quality local agencies when it comes to working for Chinese branches of foreign companies.

Over the past three years foreign business-to-business research specialists (such as Psyma Business Research and B2B International) have started to arrive in China, whilst larger, more general agencies, such as Synovate have increased their business-to-business focus. These players have positioned themselves at the high end of the market; indeed both Synovate and B2B International position (and staff) themselves to a large extent as consultants. This reflects the fact that so much business research in China is market entry and market assessment focused, requiring action-oriented conclusions, firm recommendations, and ultimately access to lawyers and accountants who will guide companies through the market entry/expansion process.

Over 90% of the business of foreign business-to-business agencies is from Western clients, be they located in China or abroad. However, a small number of Chinese clients now have the budgets to commission Western agencies to conduct export studies in Western countries, and this trend is expected to increase over time.

Foreign consultancies

So much work from the US and Europe is market-entry based, and therefore strategic in its nature, that management consultancies offering a high value-added service have included some market research in their portfolios. Conversely, foreign research agencies (such as Synovate and B2B International) have focused on recruiting consultant-researchers who can focus on adding value and advising on market entry at the end of a project.

Market entry specialists

Companies and organizations focusing on the legal and transactional aspects of market entry have positioned themselves as providers of market research to new entrants, albeit much of the market research is sourced through the market research agencies and consultancies. A good example of an organization offering access to market research in the context of more general market entry services is CBBC (China-Britain Business Council) – see *www.cbbc.org* and click on 'Market Intelligence'.

What Does This Mean For Western Research Buyers?

It is clear that there is a good range of organizations capable of providing information and intelligence in relation to Chinese markets. It is equally clear that different types of organization are set up for different client bases. Our advice to the Western buyer – unless your company already has a strong understanding of the Chinese market and a Chinese-speaking in-house manager – would be to target the Western-owned market research companies located in China. Such companies have experience not only of Chinese markets, but just as importantly experience at examining those markets through the eyes of a Western business. They also have the linguistic capabilities and understanding of Western clients' requirements that makes them easy to use as information providers.

A summary of the market for business-to-business market research in China is provided on the following page:

Figure 1 – Which agency to use, and when

Type of business	Set up to meet the needs of...
Medium and large Chinese research agencies	Chinese end clients Foreign research agencies
Smaller Chinese research agencies	Larger Chinese research agencies Smaller Chinese businesses
Foreign research agencies	Foreign end clients, Foreign research agencies, Large Chinese companies looking to export
Foreign consultancies	Foreign end clients, particularly those looking to enter China for the first time
Market entry specialists	Foreign end clients, particularly those looking to enter China for the first time

Finding A Company To Conduct Business-to-Business Research In China

To any Western company seeking research on Chinese markets, by far the best source of suppliers is ESOMAR, a European organization whose website boasts a directory of market research providers across the world. This directory is searchable by country, and all agencies are vetted for quality. Furthermore, ESOMAR's Western focus means that companies registered as providing market research in China generally have a Western focus, in terms of the linguistic capabilities of their staff, the quality standards adhered to, and the way in which information is presented.

A good half of the 60 ESOMAR-registered agencies based in China are Western-owned, almost all of these having English-speaking (and often German- and French-speaking) expatriates in management positions. The ESOMAR directory can be found on *http://directory.esomar.org/*, and the first page of results for agencies in China is illustrated in Figure 2 below. Each agency can be clicked on for details of specialisms, locations, capacity and team members.

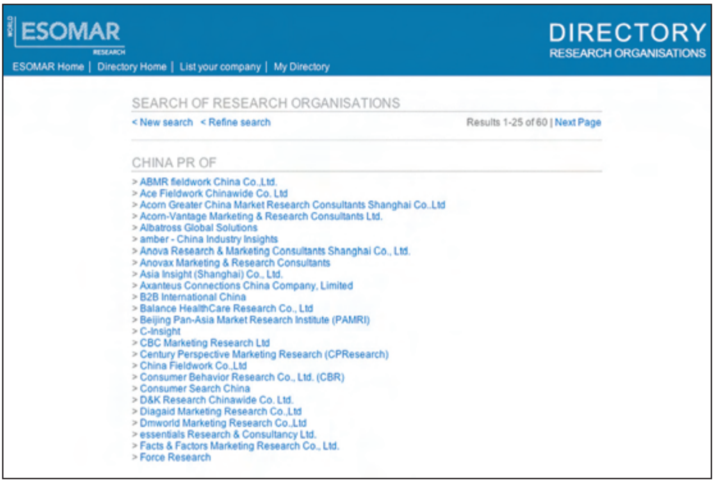


Figure 2 - ESOMAR Directory, China search

Which Industries Are Being Researched?

In consumer research, the FMCG sector is the area of the Chinese economy that is most commonly researched, followed by the automotive sector. When the business-to-business sector is looked at, however, the picture is rather different, and constantly changing.

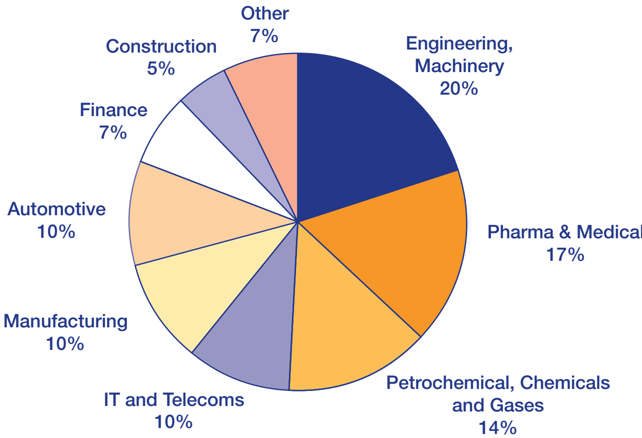
It is noticeable that the business research conducted in China is relatively evenly spread across sectors. The leading sector (over a fifth of all research is conducted in this area) is the diverse area of engineering and machinery, with valves, pumps and automation devices amongst the many product areas researched. Clients in this sector come from the US, Germany and Italy in particular, most of them wanting to know how to differentiate themselves enough to charge higher prices than the local competition.

The pharmaceutical and medical sector is the second biggest sector, accounting for just less than a fifth of the market. Significantly, this is an area that is growing rapidly, due to China's increase in focus on international pharmaceutical standards, as well as the Government's decision to develop China as a hub for bioscience research and production. Much of the research conducted has a strong 'bio' flavor, and companies at the core and the periphery of the industry are commissioning more and more research. Distribution networks, production machinery, and standards and documentation are all common topics being researched, above all by foreign companies seeking to enter what they feel is starting to become a lucrative Chinese market.

As in most business-to-business research markets worldwide, the petrochemical industry continues to commission large volumes of research. As in Western markets, the requirements vary widely, although lubrication and fuels for the transport market are areas of particular interest. Since many Western companies in this industry already have some kind of presence in China, projects tend to revolve around building on an existing presence (for example through segmentation research) rather than pure market entry work.

Research is commissioned in more or less equal measure in three more sectors – IT and telecoms, manufacturing, and automotive. Of these, automotive research is the most 'mature' and its share of the business research market is expected to decline over time. Similarly in the IT and telecoms market, much research is consumer- rather than business-oriented, and growth in the foreseeable future is likely to be limited in comparison with other sectors. (This situation will, however, change drastically if significant deregulation of the telecoms sector occurs.) In contrast, manufacturing research will grow steadily. Financial deregulation and widespread dissatisfaction with China's financial sector mean that research into the business banking sector is likely to increase rapidly over the coming years.

Figure 3 – Business-to-Business Research In China – Activity Breakdown



What Types Of Studies Are Being Conducted?

Across industries, it is noticeable that the type of research commissioned is markedly different from the situation in North America and Europe. In the West, research reflects the objectives of companies operating in mature markets, who want to establish customer loyalty, achieve differentiation through branding, monitor the satisfaction of their employees, develop new concepts, or segment their target audience. Typical research projects are therefore customer and employee satisfaction studies, branding studies, concept tests and segmentations.

In China on the other hand, a high proportion of research projects (over 60%) are focused on market assessment studies, in which clients (often foreign companies) are asking for a comprehensive explanation of how markets are structured, who are the key players, and what is the market size. The following paragraphs discuss the type of business-to-business research being conducted in China:

Market assessment studies

Market assessment studies make up around two thirds of all business-to-business studies conducted in China, whether by Chinese or foreign research agencies. The profile of the companies commissioning this work varies hugely:

- Medium-sized foreign companies are responsible for a high proportion of market assessment projects, as they seek evidence-based advice on whether entry into the Chinese market is feasible for them and, if so, how they go about making the most of this opportunity.
- Larger Western companies often have a relatively limited presence in China (perhaps just a rep office in one of the largest cities) and seek advice on how to become really serious players within the market, in terms of routes to market and potential geographical locations in particular. Most of these projects are commissioned by Western headquarters, who often seek a cross-check to the information they receive internally.
- Chinese companies typically commission Chinese agencies to identify diversification and export opportunities.

Customer satisfaction

Customer satisfaction projects are far less frequently commissioned than in Western markets; nevertheless, a significant minority of Chinese and foreign companies are commissioning this type of work. In business-to-business markets, most customer satisfaction work is conducted in product rather than service markets, with engineered machinery the main sector currently requiring this type of work. This reflects the fact that this sector is relatively mature in China, with established channels to market and a competitive environment requiring companies to gain an edge over the competition. The second key sector in terms of business-to-business customer satisfaction research is the IT sector, another competitive industry with scope for differentiation and high end-user requirements. Providers of software packages such as CRM systems are a key audience. However, whilst most of the machinery companies commissioning business-to-business research are foreign, the IT companies tend to be Chinese.

Acquisition studies

Acquisition studies are extremely popular amongst foreign companies seeking to establish themselves in China. A couple of drivers are behind this trend. Firstly, foreign companies recognize the necessity to obtain local staff and knowledge in order to fully understand their target markets, and to be convincing to local buyers. Secondly, market entry regulations in many industries require foreign entrants to access the market only through joint ventures with Chinese partners. To many Western companies, therefore, acquiring a stake in a Chinese company, or setting up a completely new company with them as a partner, is the only viable way to enter the Chinese market. For this reason, pharmaceutical companies and foreign banks are particularly likely to commission acquisitions studies as a prelude to a possible due diligence process.

Pricing studies

Pricing studies are commissioned largely by foreign clients, either as part of a wider market assessment project or in their own right. The difficulties of conducting pricing research in any geography are well-known – asking a respondent how much they will pay for a product or service is extremely unlikely to result in a reliable response, and techniques such as conjoint analysis and SIMALTO can be confusing to many respondents. This is particularly the case in business-to-business markets, which tend to involve more complex value propositions than consumer sectors, and is certainly the case in China. As a result, most pricing research involves a combination of mystery shopping with suppliers and projective questioning to target markets. A mixture of foreign and Chinese businesses commission this type of work.

Segmentation studies

As foreign companies with a presence in China seek to build on this presence by refining their marketing strategy, segmentation studies are starting to be conducted in business-to-business markets. Companies in businesses related to the petrochemical and pharmaceutical industries are most likely to commission this type of work, due to the fact that they tend to deal with relatively homogenous target markets, and are experiencing severe difficulty in differentiating their products, and therefore making adequate margin, in China.

How Is The Information Collected?

Telephone and face-to-face interviews

Data collection in China is an area around which a number of ‘urban myths’ have developed. The most common of these is the statement that Chinese people (businesspeople or consumers) are unwilling to provide information over the telephone, and that face-to-face interviews are necessary in the majority of cases.

This is a gross exaggeration. In reality, there has been a significant move towards telephone-based research in business-to-business research (as well as consumer projects) over the past 5 years. It is now estimated that 50-55% of data collection in business-to-business markets is obtained via telephone, against around 10% in the year 2000.

This is due to many of the same factors that have made telephone-based fieldwork the main methodology in the West: not least the efficiency that allows large numbers of people to be interviewed at a relatively cheap cost, and in a short timescale; and the fact that Chinese businesspeople have little desire to spend an hour or two taking part in a research project. Above all, the telephone is established as a means of communication throughout Chinese businesses. It is true that few business deals are struck in China without a number of face-to-face meetings taking place; however, market research interviews are simply the exchange of information – not the exchange of contracts – and participants increasingly see little benefit or necessity in meeting one-on-one for this purpose.

Whilst the preferences of respondents and clients are not insignificant issues in the choice of data collection methodology, there is an equally important question regarding the quality and depth of data obtained. Here again, concerns appear to be hugely overstated. Examination of scripts obtained from face-to-face and telephone interviews in China reveals that face-to-face interviews generally obtain around 10% more information than telephone interviews. Some researchers also argue that the ability to judge body language in face-to-face interviews is an important factor; however, there is little evidence to support this. Furthermore, telephone-based interviews typically take place from a studio with automatic recording and ‘listening in’ facilities, meaning that research quality standards are more rigorously adhered to.

Despite all of the above, it must be said that face-to-face interviews do have their place, and one important factor is the seniority of the respondent. Senior managers, directors and many Government officials are often more likely to agree to take part in a study when there is an opportunity to do so face-to-face. This is partly due to respondents’ natural curiosity as to whom exactly they are giving information to, but, perhaps more importantly, also due to a cultural perception that high-level discussions merit the time and effort that go into a face-to-face meeting. In fact, it is not uncommon for high-level discussions to take place at the research agency’s premises, with the respondent as an invitee, and clients observing the conversation. Wherever the face-to-face discussion takes place, it is usual for a small gift or incentive to be provided, something which does not usually happen with telephone data collection.

Overall it appears that the perception of face-to-face interviews as superior to the telephone alternative is often as prominent within the research agencies as it is amongst target audiences. Some agencies’ choice of interview method reflects their own preference rather than any methodological reason or respondent preference.

Focus groups

The focus group is a methodology that is used in China, albeit much less so than in Western markets. There is an almost unanimous view in the market that Chinese respondents – particularly businesspeople – prefer to provide information on a one-to-one basis rather than in the company of their peers. The exact reason for this is unclear, although the balance of opinion suggests that this is a cultural issue more so than a matter of concerns about confidentiality. As discussed later, it is also the case that the open-ended and projective questioning used in qualitative research tend to work less well with Chinese respondents than with Westerners. When focus groups are conducted, they are commonly carried out in a 'mini-group' format of three or four people; groups of 8-10 respondents are very rare.

Online data collection

Whilst Chinese agencies are extremely techno-savvy, the only technological area in which they tend to lag behind their Western counterparts is in their use of online data collection techniques. This appears to be due to the relatively low Internet penetration in China and, in particular, the lack of familiarity of the target audience with the very interactive sites that are necessary for data collection. Currently, business-to-business online surveys are mainly limited to IT managers, and online focus groups are yet to be introduced to any audience. Agencies are so unconvinced of most respondents' ability or willingness to take part in web surveys that, when asked by Western agencies to conduct the Chinese element of an international online survey, they employ their interviewers to conduct telephone interviews with respondents. As the respondent provides his or her answers over the telephone, the interviewer enters them into the online survey.

Desk research

The language issue alone makes conducting desk research into Chinese markets a daunting task for Western organizations and this issue is frequently added to with the complaint that desk sources in China are hard to come by. Whilst the language issue is beyond doubt, it is, however, certainly not the case that there is a lack of desk resources for the researcher.

In fact, if it is industry statistics and details of regulations that you are looking for, then it is doubtful that any country makes more information available than China. The National Bureau of Statistics *(www.stats.gov.cn/english/)* provides economic information for free on a monthly basis. The National Development and Reform Commission puts in place regulations designed to develop different Chinese industries, and these regulations can be found on *http://en.ndrc.gov.cn/*. A whole host of Ministries and Administrations exist within the Chinese Government, all of which are listed on *www.china.org.cn*. Many of these will provide information on the industries and activities within their jurisdiction, either online or sometimes through direct contact. Increasingly, information is provided in English and other European languages.

In addition to direct Government departments, most industries within China have at least one association which will be closely related to Government. These associations are excellent sources of market information, and indeed of potential target companies within their industries. Chinese agencies all possess the Chinese Government's directory of Government departments, which is two volumes long and lists every single Government department.

In terms of search engines, the main tool used is *www.baidu.cn*, followed by *www.google.cn.* As with primary fieldwork, researchers operating within China must steer clear of certain information areas, relating in particular to Government and social policy.

Figure 4 – Homepage of www.baidu.cn

Data Collection Into The Future

Over the next five years, two key trends will happen in terms of business-to-business data collection. Firstly, it seems certain that the move towards more telephone-based fieldwork will continue, as acceptance of this method increases amongst respondents, clients, and agencies alike, and as demand for research outside the main cities grows. However, face-to-face interviewing will remain prominent, as it is firmly entrenched in the culture of research in China and, it should be mentioned, not enormously more expensive than telephone interviews. Secondly, the emergence of the Internet as a viable means of data collection is certain to occur, again due to the acceptability of this method to clients and respondents alike. The high demand for large-sample projects within China means that the web-survey will be the first and the most widespread of these techniques. Online focus groups and blog research will grow far more quickly in consumer applications; however, both will grow steadily over the next 5 years.

Quality Procedures

The ‘big city’ Chinese research agencies place an extraordinary emphasis on quality. Whereas Western agencies tend to listen in to around 10% of interviews, it is not uncommon for Chinese agencies to listen to 50% or more of telephone interviews as they take place, with recordings of the remaining interviews also listened to. Agencies often read through every single completed questionnaire, insisting that respondents be re-contacted as appropriate. Full-time quality management teams often number 6 or 7 people.

The emphasis of these agencies on quality is complemented by their focus on new technology, which agencies use to their full advantage. Indeed, technology is an integral part of the quality assurance process, with digital recording of interviews and randomized monitoring systems used for telephone fieldwork. Face-to-face interviewers typically use MP3 players to record their interviews. Significantly, there is no secrecy law in China, meaning that interviews can be recorded without the knowledge of respondents. There is, however, an increasing tendency for respondents to be made aware if they are being recorded, as agencies recognize the importance of maintaining the trust of target markets (this is particularly the case in business-to-business research).

Quality is such a key issue for Chinese agencies that research buyers may well find themselves having company quality procedures recited to them during the initial stage of scoping a potential project. With such a focus on this issue, potential research buyers should be reassured about the very high reliability of research produced by the bigger agencies in particular.

What Can And Can't Be Asked?

The subject of what can and cannot be researched in China is a contentious one, and – as with data collection methods – there is a tendency for the 'uniqueness' of China to be exaggerated in this respect.

In terms of subject matter, the truth is that there is very little difference between what can be researched in China and what can be researched in Western countries. Culturally, there is no great reticence in terms of providing information and, as the Chinese become increasingly aware of market research, obtaining their views is, if anything, becoming easier.

Most of the areas in which it is difficult to obtain information are similar to those that are difficult in the West. Company's financial data, such as profit and loss information, is an obvious example, and this can be as much to do with lack of knowledge as lack of willing on the part of the respondent. It is true that certain areas of social research are closely monitored, as are attempts to seek details from Government on contentious issues. The Government is, however, seen as more of a help than a hindrance by most agencies, particularly due to its comprehensive documentation of regulations, policies and industry trends, all of which make environmental analysis of a market far easier than in most Western markets.

An area where there is a difference between Chinese and Western respondents is in the types of questions that can be asked. Chinese respondents are particularly honest about what they do and do not know, making them extremely reliable in market assessment projects where hard facts and statements are required. In contrast to respondents in many Western countries, Chinese respondents will not make up answers in order to avoid looking foolish. The flip side of this is when qualitative research is being conducted, and the researcher requires ideas rather than statements of fact. Projective questions such as, "in an ideal world, what would be the qualities of the perfect supplier?" tend to work far less well than in Western markets, as do speculative questions, such as, "by approximately how much do you think the market will grow over the next year?". Whereas in Western markets these questions may result in the most comprehensive answers in the study, in China they would often be met with a curt "I have not thought about it" and "no-one can tell" respectively.

Recommendations For Research Buyers

This paper has sought to introduce the reader to the main characteristics of the Chinese market for market research, and above all highlight the great potential for any research buyer to consider commissioning market research in this fast growing market. With the right agency, research in China is good quality, detailed, insightful, cost effective, and above all an excellent aid to decision-making. We finish this article by putting forward five tips on commissioning research in China:

1. Scoping – The best quality business research will be research that quickly identifies the key regions of China that relate to the study, and then focuses most research effort on these areas. Differences between regions, as well as the sheer size of target audiences, are so vast that industries that are critical to one region are more or less non-existent in another. Research that does not recognize this risks spreading itself too thinly and wasting effort in irrelevant areas.

2. Go national – Choose an agency that is national (or indeed international) rather than local in scope; these are the agencies that have most resources, are most used to dealing with Western clients, and – for end clients – most accustomed to providing insightful analysis rather than simply interview scripts.

3. You get what you pay for – The good quality Chinese agencies are slightly cheaper than Western agencies, but don't expect to pay a quarter or a third of what you pay your European or American agency. Incentives to respondents, rigorous quality checking, and high level of involvement by very senior (often expatriate) staff are all reasons why the better agencies are not 'cheap and cheerful'. Our advice would be to think of the research cost in terms of the potential benefits to your organization and its decision-making, which could potentially be huge.

4. What type of researchers are they? – It is important to check not only the client list of a potential supplier, but also the type of work that the company does. In particular, it is essential to differentiate between experience at collecting data, and experience at analyzing data and drawing conclusions. Most 'indigenous' clients provide almost entirely 'data only' work to Western clients.

5. Keep frequent contact – Frequent contact should be kept with the agency you appoint, not only to keep track of the progress of the project, but more importantly to establish a relationship and be seen by the agency as a partner. Chinese business is extremely relationship oriented, and the closer you work alongside your agency, the more proactive you will find them. There is no such thing as pestering!

Notes: *B2B International is a business-to-business market research agency with its European headquarters in Manchester (UK). The company's North American office is located in New York and its Asian subsidiary is based in Beijing, China.*
For advice on B2B International's services in China, or to discuss any aspect of this article, please contact:

Matthew Harrison (Director of International Operations) in our New York office on +1 914-761-1909 or via matthewh@b2binternational.com

Alternatively, you can contact

Alaric Fairbanks (General Manager of B2B International China) in our Beijing office on +86 (0) 10 6515 6642 or via alaricf@b2binternational.com

INTERNATIONAL

B2B INTERNATIONAL USA INC
707 Westchester Avenue
White Plains | NY 10604 | USA
tel: +1 914-761-1909
fax: +1 914-761-1503
email: newyork@b2binternational.com